

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268

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POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

INITIAL BRIEF
OF
FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

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IDENTIFICATION OF INTERVENOR

This Initial Brief is submitted in behalf of Florida Gift Fruit Shippers Association, Orlando, Florida. (Referred to herein as "Florida Shippers")

Florida Shippers is involved with the shipments of fresh citrus products from Florida to destinations throughout the United States and Canada, and is a substantial user of Standard B – Parcel Post mail.

Florida Shippers engage in a drop shipping program, providing line haul transportation in truck load lots from Florida to various Postal Service facilities in the United States. Delivery at destination is handled by the Postal Service, primarily utilizing DBMC rates.

During the 1999-2000 season, the total packages handled by the Florida Shippers exceeded 1.12 million. The average weight of the gift fruit parcels is approximately 25 pounds, with 20.0 per cent being over 38 pounds.

A more detailed description of the Florida Shippers and the transportation and delivery programs are set forth in the testimony of Witness Joseph E. Ball, FGFS-A-T1. TR 14288. These details will not be repeated in this brief.

VOLUME VARIABILITY OF PURCHASED TRANSPORTATION COSTS

USPS Witness Bradley, USPS-RT-8, identifies the issue as “to find the percentage response in total purchased highway transportation cost from a given percentage change in volume.” TR 18399

Witness Bradley, in his testimony USPS-T18, made an analysis to determine the variability of highway purchased transportation costs. The end result of his analysis is that the variability of purchased transportation costs was 97.9% for Inter-BMC transportation and 908.3% for Intra-BMC transportation.

This variability is determined from the analysis of contract costs and cubic foot miles of capacity. The number of contracts and the total cubic foot miles of capacity increased.

However, Witness Bradley does not know the changes, if any, in the volume of mail transported in Inter-BMC or Intra-BMC transportation equipment

In the absence of some analysis of changes in mail volume, it is not possible to determine the variability of transportation costs with change in mail volume.

In contracting for purchased transportation Witness Bradley, quoting from USPS Witness Young in Docket No. R97-1, said that there are a number of considerations, “but average utilization on a segment is not one of them.” The factors cited include: the requirements of downstream mail processing and delivery facilities, service commitments, the number of containers each downstream facility normally receives on the busiest day, and the ability of the plants to handle types and sizes of highway equipment. TR 2402. He also said that the size of the truck is dependent on service requirements, the distance between and number of downstream facilities served and the

number of containers expected to be transported. The size of the truck itself is driven by factors other than mail volume. TR 2404.

In this docket, USPS Witness Young provided testimony, USPS-RT-10, and, during cross examination, acknowledged that there is a volume imbalance, but that the Postal Service contracts for vehicles in both directions – for a roundtrip. TR 18602.

Witness Bradley did not take into account, or otherwise reflect in his analysis the low and declining utilization of Inter-BMC and Intra-BMC transportation that was reported by USPS Witness Xie. TR 2462. The low and declining utilization of the transportation vehicles demonstrates that the purchased transportation costs, which are increasing, are not variable with mail volume.

The low utilization of the purchased transportation capacity in Inter-BMC and Intra-BMC has continued at least since 1991 and is increasing. From the Base Year 98 to Fiscal Year 99 the vehicle utilization in Inter-BMC decreased from 65% to 56%, and in Intra-BMC decreased from 56% to 53%. TR 6760. It is readily apparent that this condition is not temporary and is not one that will be corrected by changes in the contracts for purchased transportation. It is an on-going condition that appears to be an inherent part of the postal transportation system, which is not caused by any class or classes of mail, and thus cannot properly be attributed to any class or subclass of mail.

MPA Witness Nelson, MPA-T-3, also criticizes the analysis by USPS Witness Bradley, and makes his own analysis with the results that the variability of Inter-BMC was only 30.2% and of Intra-BMC was only 63.7%. Table 1, TR 13424.

Since Witness Bradley did not use mail volumes to determine variability, it is not reasonable or proper to use the variabilities which he developed.

FGFSA Witness Ball recommends that the variability and attribution of purchased highway transportation cost be based on the vehicle utilization for Inter-BMC and Intra-BMC transportation, rather than the improper estimates of Witness Bradley.

DISTRIBUTION OF PURCHASED HIGHWAY TRANSPORTATION COSTS

TRACS is the sampling system used by the Postal Service to develop the quarterly distribution keys for the costs of purchased highway transportation. The distribution keys are based on the calculated cubic foot miles for each of the sampled mail categories.

For the samples taken on Intra-BMC transportation, 49% are taken on the outbound (from the BMC) trip, and 51% are taken on the inbound (back to the BMC) trip. However, the mail volume outbound is considerably greater than the mail volume inbound. This is evidenced by the utilization of the vehicles - 71.25% on the out bound trip, but only 38.25% on the in bound trip.

This selection of the TRACS samples does not reflect the relative mail volumes, and makes the sampling non-representative and biased.

In its Opinion in Docket No. R97-1, paragraph 3391, the Commission said:

It appears to the Commission that TRACS would better serve the purpose Of supplying information for a rate proceeding if the data collection and Reporting were kept separate from the imputation that is made when the Contents of trucks and containers are "expanded" to full unused capacity.

The Commission went on to recommend modification of TRACS "so that the data collection and reporting omit the expansion calculation." Unfortunately, the Postal Service has not followed that recommendation.

The TRACS program continues to "expand" the sample to the full capacity of the container and to the full capacity of the vehicle. This is not reasonable or proper.

UPS witness Neels (UPS-T-3) TR 15992.also criticizes the "expansion" process, and offers a proposal to reallocate the empty space on each trip. Witness Neels also identifies other problems with the TRACS system.

USPS Witness Bradley, USPS-RT-8, proposes a compromise between the TRACS method and the alternative offered by UPS Witness Neels, and proposes what he characterizes as a "compromise" which would "allow for the joint determination of capacity and empty space across the entire purchased highway transportation network." We have not had the opportunity to delve into the mechanics of the compromise, so cannot comment on it.

It is sufficient that the TRACS method cannot be sustained, and must be *corrected*.

Witness Bradley acknowledges that there are two parts to the expansion process - the filling of partially full containers and the allocation of unused space of the vehicle. He states that the procedure of filling the partially full containers is not at issue in this case. However, FGFSa Witness Ball raised the issue of the propriety of "expansion" of the sample for the empty space in the container, and voiced objection that it penalized the mail on the in bound trip. TR 14299.

The same objection to the expansion process should be made to the expansion to fill the container and to the expansion to fill the vehicle.

The TRACS samples are randomly selected, and the data produced by each sample should have equal weight in the development of the distribution key. The "expansion" procedure improperly alters data from each sample, and causes some samples to be more heavily weighted in the determination of the distribution key.

TRACS has other problems which make the results unreliable and unsatisfactory for ratemaking purposes.

The data for Inter-BMC samples reflect a distribution key of 3.375% for DBMC parcels. By definition, a DBMC parcel does not use Inter-BMC transportation.

Similarly, the data for Intra-BMC samples reflect a significant number of DBMC parcels on the in bound trip back to the BMC. A DBMC parcel originates at the destination BMC for distribution to SCF and other postal facilities served by that BMC. The DBMC parcels cannot properly be found on the in bound trip back to the BMC.

These are clearly errors in the sampling process, which render the TRACS data unreliable for the development of the distribution key for purchased highway transportation.

TRACS uses cubic foot miles as the basis for determination of the distribution keys. However, weight and density should also be taken into account. Periodicals mail might exceed 20 lb./c.f. and loading of a standard trailer would weigh out before using the entire cubic capacity of the trailer. TR 13407. Thus, the factors to be taken into account should include the weight/density of the mail, and cubic foot miles should not be the sole criteria.

For Intra-BMC transportation costs, the TRACS distribution key shows a key of 20.477 for parcel post (which would include the final leg of the transportation for Inter-BMC trips), but only 11.533 for DBMC parcels. Since the volume of DBMC parcels is more than twice the total volume of Intra-BMC and Inter-BMC combined, the distribution key developed from the TRACS data is clearly wrong, and cannot be relied on for the distribution of transportation costs.

The distribution keys developed from the TRACS samples, averaged for the four quarters, are:

	Intra-BMC	Inter-BMC
Standard A	25.150	33.924
Parcel Post	20.477	19.924
DBMC	11.533	03.375

However, the record reflects that the estimated volume and cubic feet of each is materially different from these distribution keys. The cubic feet for each is:

	Intra-BMC	Inter-BMC
Standard A	304,977	125,035
Parcel Post	14,153	34,214
DBMC	207,674	-0-

Source: FGFS-A-T-1, Page 13, TR 14288.

The TRACS developed number are in cubic-foot-miles, whereas the cubic feet shown above are without a mileage factor. There is no reason to believe that the mileage, especially within Intra-BMC, for each of the three mail categories would be materially different.

Since the distribution keys from TRACS is so materially different from the cubic feet of the mail in these three mail categories, the keys do not reflect actual mail volumes and should be adjusted to conform with the known volumes and cubic feet.

Florida Shippers recommends to the Commission that the purchased highway transportation cost distributed to Standard A, Parcel Post and DBMC be redistributed according to the cubic feet of each category.

WEIGHT RELATED NONTRANSPORTATION HANDLING COSTS

USPS Witness Plunkett, USPS-T-36, says that the proposed rate structure for Standard B – Parcel Post includes a two cent per pound factor to cover weight related nontransportation handling costs.

However, Witness Plunkett cannot identify any of the costs which are intended to be covered by this rate element, and admits that there is no study to identify any such costs. TR 5029 The two cent per pound charge was included because Witness Plunkett just did what had been done before in earlier cases. TR 5034.

In the absence of any study or identification of costs to be covered by the two cents per pound, there can be no justification of the use of this factor in the rate structure.

The Commission is entitled to greater rigor than this in establishing the basis for a rate element. Accepting the proposal on faith, because there is no alternative to that in the Postal Service presentation, is not a sound basis for imposing such a rate element.

This rate element results in rates for a 30 lb. Parcel to include 60 cents for unidentified, unquantified costs, whereas a 10 lb. Parcel would include only 20 cents for such costs. There is not shown, or known, to be any justification for this difference, based solely on the weight of the parcel.

FGFSA Witness Ball, in FGFSA-T-1, acknowledged that there may be some costs, such as floor space, or number of parcels in a sack or container, which differ according to the size, or cube, of the parcels. Such additional costs are determined by the size, or cube, of the parcel, rather than the weight. The relationship between weight and

cube has been established for transportation costs, and the same relationship should be applied to apportion the weight related nontransportation handling costs.

Witness Ball recommended that the unidentified additional weight related nontransportation handling costs be apportioned using the cube/weight relationship as has been developed and presented in USPS-T-26, Attachment K.

As an alternative, Witness Ball suggested that the rate factor be reduced from two cents per pound to one cent per pound, in order to moderate the injustice and lack of any data to support this factor in the rate element.

PARCEL POST TRANSPORTATION UNIT COST

USPS Witness Eggleston, USPS-T-26 presents the Parcel Post transportation unit costs by identifying transportation as being Local, Intermediate and Long Distance.

The focus is on the Intermediate costs, which are associated with the transportation between facilities within the service area of a BMC.

These Intermediate costs are deemed to be “non-zone related” for Inter-BMC and Intra-BMC parcels, but “zone related” for DBMC parcels. This is nonsense!

As shown by Attachment N to USPS-T-26, the Intermediate cost are different for Inter-BMC, Intra-BMC and DBMC. For example, for parcels destined to Zone 4, the intermediate costs are: \$1.1855 for Inter-BMC, \$1.2127 for Intra-BMC, and \$4.3843 for DBMC.

Parcels being transported from the BMC to the destination P&DC move on the same route and in the same vehicle. There is no justification for there to be differences in the costs allocated to different rate categories.

It defies all reason to contend that the Intermediate transportation provided does not increase with distance traveled. There has not been shown any justification for the concept that the additional mileage to more distant zones does not incur additional cost, or that the “non zone related” concept has any validity.

ASSIGNMENT OF INSTITUTIONAL COSTS

The “reasonable assignment” of institutional costs is probably the most important, and the most difficult, of the work of the parties and the Commission.

Under Section 3622(b) the Commission has discretion in the application of the non-cost factors. The central focus is on the concepts of “fair and equitable” and “value of service”.

Witness Ball, FGFS-A-T-1, discusses the assignment of institutional cost. TR 14288.

Every piece of mail benefits from the postal system, but all mail does not equally benefit. Some mail receives varying degrees of preferred or expedited service, and other mail, such as parcel post is subject to a deferred or slower level of service.

Value of service, both to the mailer and the addressee, should be taken into account, on a judgmental basis, in determining the amount to be paid by each piece of mail toward institutional cost.

An appropriate starting point is a uniform amount for each piece of mail. From there, appropriate adjustments should be made to reflect the relative benefits from participating in the postal system, the value of service, and the ratemaking criteria of the Postal Reorganization Act.

Because parcel post has a low value of service, it should be near the average of the per piece unit contribution.

Historically, assignment of institutional costs has been made by the application of a mark-up percentage to attributable costs. Differences in the cost of handling and processing each piece of mail are reflected in the amount of attributable cost for that

piece. These differences should not be compounded by the application of a mark-up percentage for institutional cost. The per piece contribution should receive paramount consideration.

Weight should not be a factor in determining the contribution to institutional cost. A 40 pound parcel receives no greater benefit from the system than does a 5 pound parcel, and there should be no difference in the amount of the per piece contribution.

Similarly, for zone-rated parcel post, the parcel destined to Zone 8 should not make a larger contribution than a parcel destined to Zone 3. The difference in attributable costs is for transportation, which is not a part of the postal system, but rather is a purchased service from outside providers. The transportation cost should not operate to increase the contribution to institutional cost.

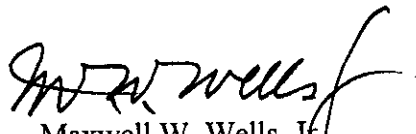
Under the pure percentage markup method, if the Postal Service automates further or otherwise becomes more efficient in handling and processing a class of mail, with resultant lower attributable costs, then, due to the improved service, that mail will make a reduced contribution to institutional costs. Other mail, which has not received the benefit of the improved efficiency, will have to make a larger contribution. That is inconsistent with the concept of "reasonable assignment" of institutional costs.

In the past, Parcel Post has been above average in the per unit contribution, usually below only the preferred classes of Priority and Express Mail. Because of the low value of service and deferred handling, Parcel Post should be near the average of the per unit contribution.

The factors which have justified low cost coverage in prior rate cases continue to apply. We urge the Commission to moderate the cost coverage for Parcel Post so that the

recovery of volume lost over the years can be recovered, principally through the use of DBMC, DSCF and DDU rates.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Maxwell W. Wells, Jr.", with a stylized flourish at the end.

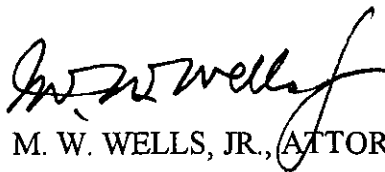
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been mailed this date to all parties of record, in accordance with the Rules of Practice.

Dated this 13th day of September, 2000

A handwritten signature in cursive script, appearing to read "M. W. Wells, Jr.", written in black ink.

M. W. WELLS, JR., ATTORNEY